



## Education Trust Board of New Mexico

Barbara Damron, PhD, RN, FAAN  
Board Chair

Ted Miller, JD, LLM  
Executive Director

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## Investments and Pensions Oversight Committee

November 5, 2015



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# INTRODUCTORY COMMENTS

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# NM ETB Mission

- To create, market, and administer a 529 college savings program for the State of New Mexico.
- To assist as many New Mexico residents as possible to save for college expenses.
- To distribute the Program nationwide in support of NM ETB's 529 mission in New Mexico.





# What is a 529 College Savings Plan?

- A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs.
- 529 assets can be used to pay for the expenses of post-secondary education – public or private.
- All earnings and withdrawals from A 529 plan are free from federal and state income taxes if used to pay for qualified educational expenses.
- Contributions by a New Mexico tax payer may be deducted from income for New Mexico individual income tax purposes.





# Qualified Education Expenses

- Tuition and fees
- Books, supplies, and equipment
- Computer technology, equipment, or Internet access
- Expenses for special needs services
- Room and board
- Transportation



# **BOARD GOVERNANCE & OVERSIGHT PROCESS**

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# NM ETB Funding, Structure, Staff, & Advisors

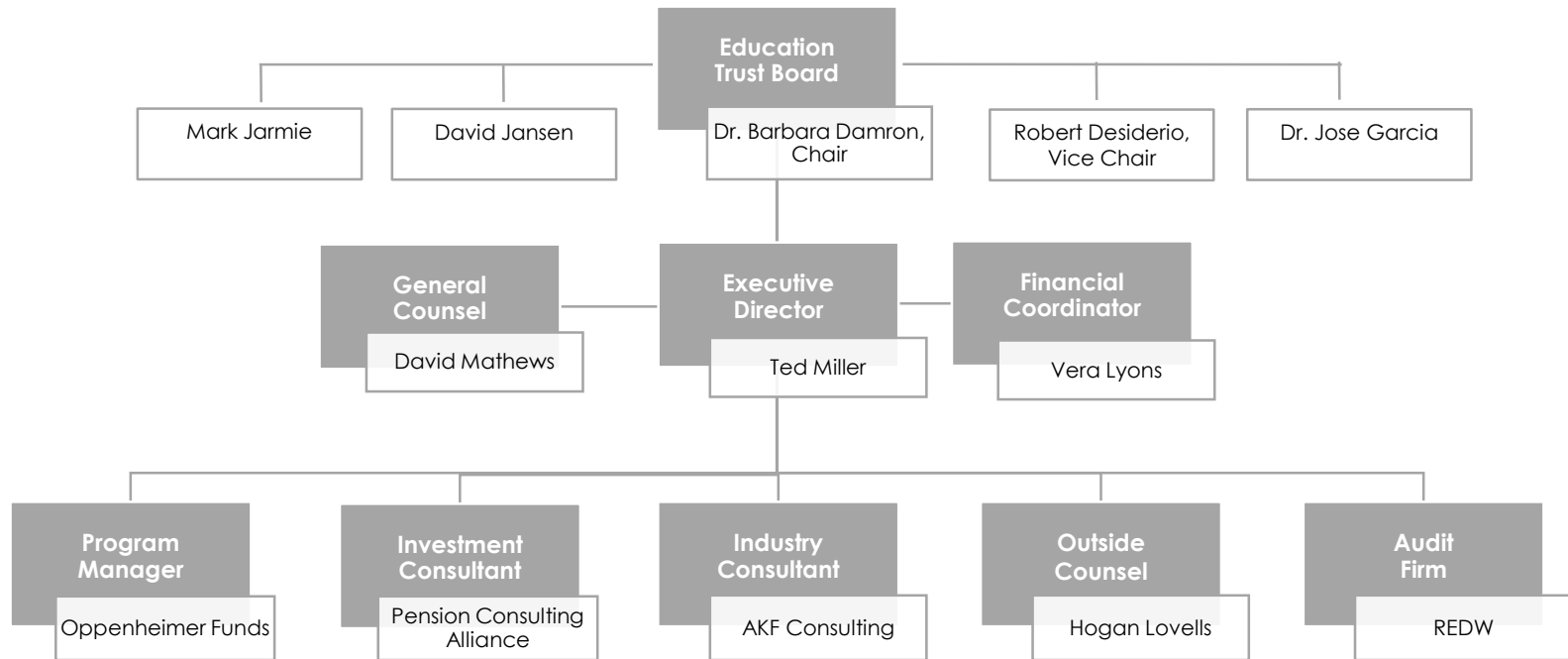
- The Education Trust Board is the governing body for New Mexico's 529 college savings programs
  - The NM ETB does not receive legislative appropriations. By statute, NM ETB must fund its efforts entirely from program fees.
  - The NM ETB is administratively attached to the New Mexico Higher Education Department.
  - Secretary of Higher Education Department or the Secretary's designee is the Board Chair.
  - Other members are appointed by the Governor (2), Senate Pro Tem (1), and Speaker of the House of Representatives (1).
  - The NM ETB is responsible for implementation, administration and marketing of the plans established under the Education Trust Act.
  - The NM ETB Acts as a fiduciary of the Education Trust.







# NM ETB Structure, Staff, & Advisors





# NM ETB Program Manager

Oppenheimer Funds serves as the program manager for the NM college savings program and is responsible for:

- Program Administration
- Customer Service and Recordkeeping
- Investment Management
- Marketing and Distribution





# Underlying Money Managers



- Oppenheimer Funds
- Vanguard
- TIAA CREF
- Dreyfus



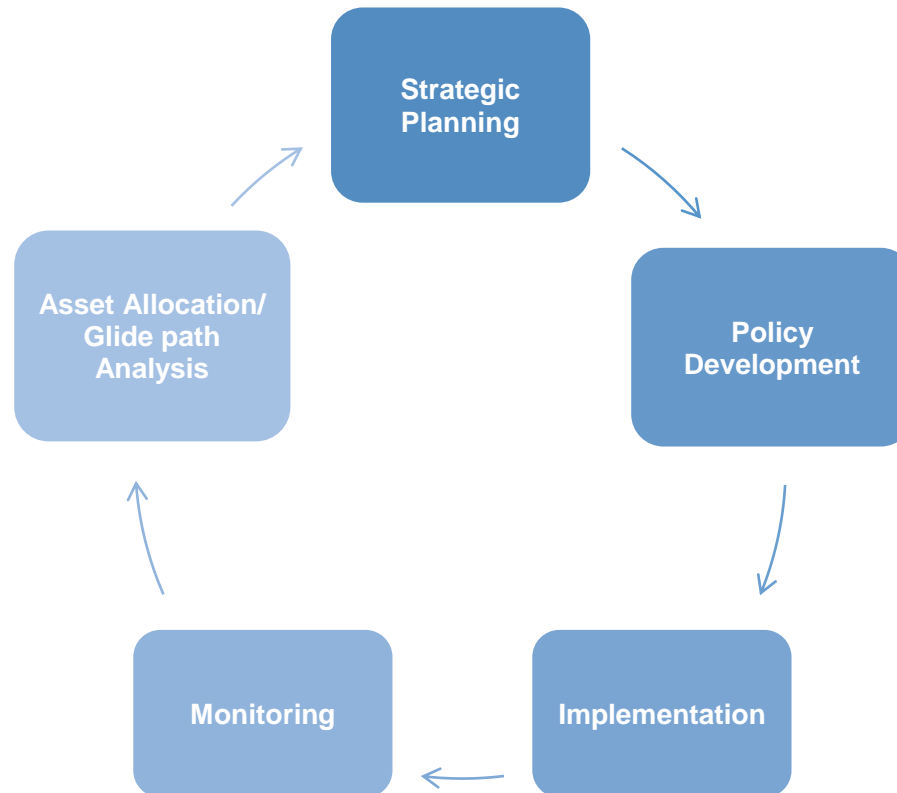
- Oppenheimer Funds
- Dreyfus
- American Century
- MainStay
- Monetta
- NYLIM Funding Agreement





# Board Governance & Oversight Process

- ETB's Investment Policy and Performance Monitoring Guidelines provide the framework to make decisions
- Integration across these major areas is key to best practice processes





# Board Governance & Oversight Process

- ETB utilizes its team of consultants to develop and implement a monitoring and guidelines process:
  1. Established Monitoring Criteria via Investment Policy and Monitoring Guidelines document
  2. Consultant reports criteria breaches and communicates with Program Manager
  3. Consultant monitors and reports on changes in performance and continues dialogue with Program Manager
  4. Recommendations to terminate, restore to normal status, or continue to monitor are made within a 12-18 month time period
- ETB responsible for final decisions to add/remove funds from the “Watch” list
- Reports provided by PCA and AKF to the ETB
  - Monthly “Performance Flash Report” on all underlying mutual funds
  - Monthly “Investment Risk Metrics Report”
  - Quarterly “Investment Monitoring Report”
  - Quarterly “Watch” list Review and Update Memo
  - Quarterly Newsletter “529 Investment Overview”
  - Annual “529 Industry Landscape Analysis”
  - Assessment of Oppenheimer’s (OFI) Annual Program Review
- ETB and PCA conduct site-visits with OFI for review of risk management





# Independent Consultant Oversight

## *Investment Consultant (since 2012) Pension Consulting Alliance, LLC*

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- Investment policy development and maintenance
- Recommendations regarding the breadth and construction of investment options
- Investment benchmarking
- Underlying fund evaluation and monitoring
  - Investment performance
  - Risk factors
- Glide path analysis
- Annual program manager analysis
- Board/staff investment education

## *529 Industry Consultant (Since 2012) AKF Consulting Group*

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- Program design
- Strategic consulting
- Annual industry landscape analysis
- Annual fiduciary training (Board and staff), including regulations and best practices
- Monthly calls on industry developments
- Regulatory and legislative updates
- Peer program developments and analysis
- Distribution strategies











# About PCA

- PCA is an independent, full-service investment consulting firm providing a broad range of investment advice to a wide variety of sophisticated institutional investors
  - Founded in 1988
  - Strategic alliance with AKF Consulting Group, one of the leading strategic advisor to the college savings industry
  - PCA/AKF team represents a unique, holistic approach to 529 investment consulting
- Investment consulting is PCA's only line of business
  - Total client asset under advisement = \$1.1 trillion
- PCA began consulting to the Education Trust Board (ETB) in December 2011
  - Prior to this, PCA did not provide consulting services to any 529 programs run by Oppenheimer
- PCA provides investment consulting services to 7 state-run 529 College Savings Plans totaling \$45.8 billion in client assets
  - Additional project work for several other 529 College Savings Plans





# PCA/AKF Organizational Structure

	Name	Title	Role	Consulting/Industry Experience	Previous Experience
	<b>Eric White, CFA</b>	Principal	Lead Consultant; PCA	7 years (6 with PCA)	Merrill Lynch
	<b>Kay Ceserani</b>	Principal	Lead Consultant; PCA	23 years (7 with PCA)	Yanni Partners Aon Hewitt RVK
	<b>Andrea Feirstein</b>	Managing Director	Lead Consultant; AKF	31 years (13 with AKF)	Citigroup Asset Management Salomon Smith Barney Brown & Wood
	<b>Sean Copus</b>	Senior Analyst	Analytical Support; PCA	5 years (3 with PCA)	Mazama State Street
	<b>Ashley Yoshida</b>	Senior Analyst, CCO	Analytical Support; PCA	8 years (8 with PCA)	Symantec Corporation
	<b>Soohyang Lee</b>	Senior Financial Analyst	Analytical Support; AKF	4 years (4 with AKF)	Student







# **NEW MEXICO 529 PROGRAMS STRUCTURE**

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# Plan Options



- Direct-Sold Plan
- Assets – \$483 million
- Accounts – 20,680
- 3.8 ★'s Avg. Morningstar rating
- 40% funds 529 medal rated by Morningstar
- No- load funds
- Age-based and static options



- Advisor-Sold Plan
- Assets – \$1.9 billion
- Accounts – 120,665
- 3.5 ★'s Avg. Morningstar rating
- 25% funds 529 medal rated by Morningstar
- Age-based, custom choice and static options

- Three risk-based tracks offered in each Program – Aggressive, Growth and Balanced.
- The Education Plan and Scholar'sEdge glidepaths include six age-bands.
- Account assets are shifted to next stage of glidepath on birthday of Beneficiary.
- The Education Plan offers both index and blended portfolios in its age-based and static options.





# NM ETB Program Enhancements

## Investments – new options in green

The Education Plan	Scholar'sEdge
Expanded number of age-based tracks (Index and Blended Programs) <ul style="list-style-type: none"><li>▪ Aggressive</li><li>▪ Growth</li><li>▪ Balanced</li></ul>	Expanded number of age-based tracks <ul style="list-style-type: none"><li>▪ Aggressive</li><li>▪ Growth</li><li>▪ Balanced</li></ul>
Added two non-equity Custom Choice static portfolios <ul style="list-style-type: none"><li>▪ Fixed Income</li><li>▪ Low Duration</li></ul>	Added two non-equity Custom Choice static portfolios <ul style="list-style-type: none"><li>▪ Fixed Income</li><li>▪ Low Duration</li></ul>
	Expanded individual fund options <ul style="list-style-type: none"><li>▪ 26 funds (added 7 new funds)</li><li>▪ Covering 20 sub-asset classes</li></ul>





# NM ETB Program Enhancements

## Program Administration

- Continuation of fee rebate for New Mexico residents returned \$310,000 to New Mexico Account Owners during FY2015.
- Initial Contribution amount for The Education Plan reduced from \$250 to \$25 for all Account Owners.
- Program Manager will now accept subsequent contributions in any amount instead of \$25 minimum.
- Maximum contribution limit increased to \$400,000 from \$294,000 to keep pace with the increase in private college costs.
- PACE (Planning Ahead for College Education) offers parents tips and advice for tracking important milestones and goals for their children's education from birth to Grade 12. Can be accessed directly from Plan websites or directly at [www.paceforcollegesavings.com](http://www.paceforcollegesavings.com)





# NM ETB Marketing Initiatives

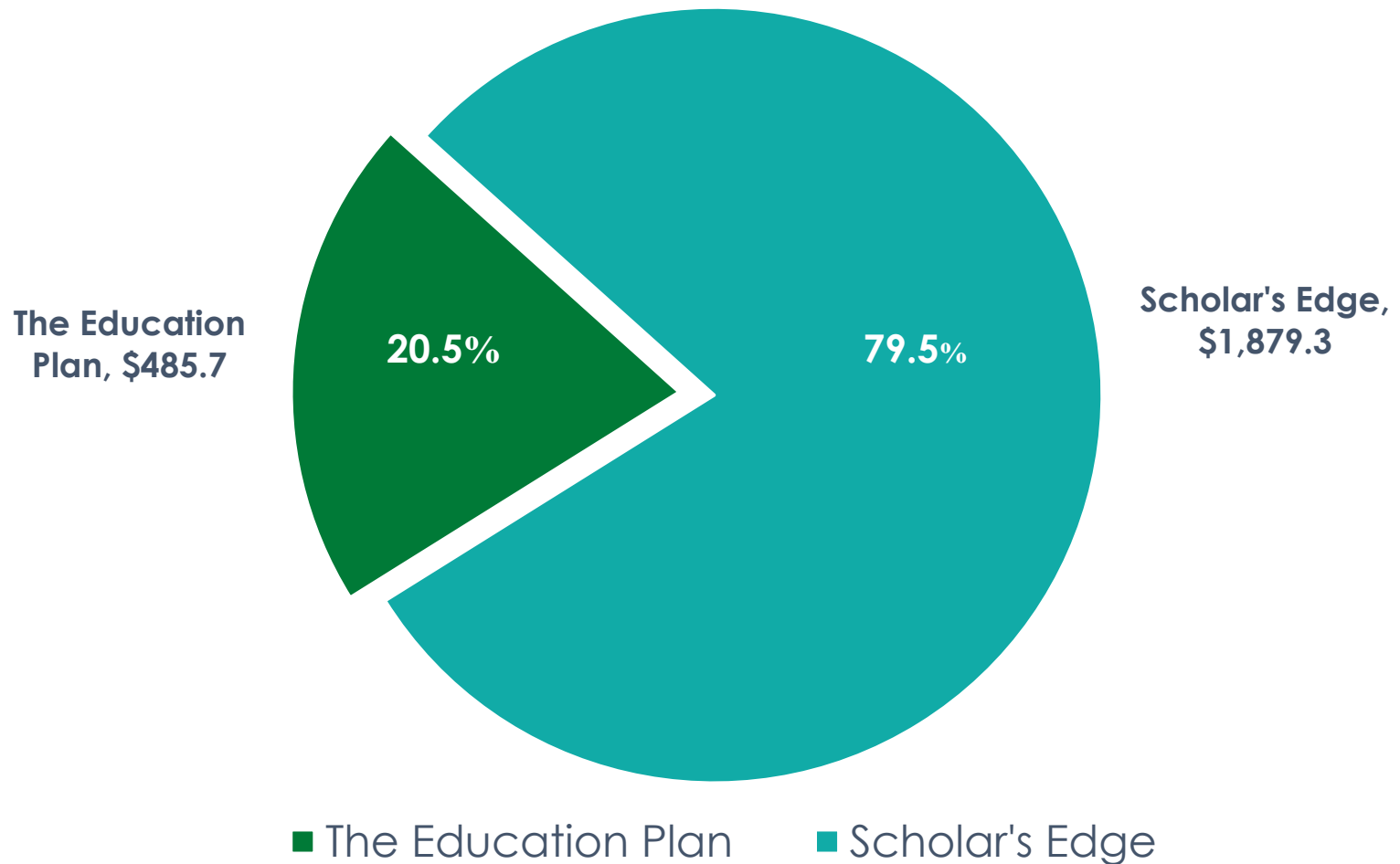
- Program Manager has committed \$1,575,000 for marketing efforts in FY2017.
- Program Manager has also earmarked an additional \$650,000 annually for NM ETB marketing efforts.
- NM ETB is actively researching establishment of an initial and matching grant program to encourage formation of 529 accounts by NM residents.
- The Education Plan is the sole sponsor of the current Dino exhibit at the NM Museum of Natural History.
- NM ETB is currently negotiating an MOU with the National Association of Secondary School Principals to accept \$250,000 in National Junior Honor Society scholarship money into 529 accounts for 500 students nationwide.





# TOTAL EDUCATION TRUST ASSETS BY PLAN

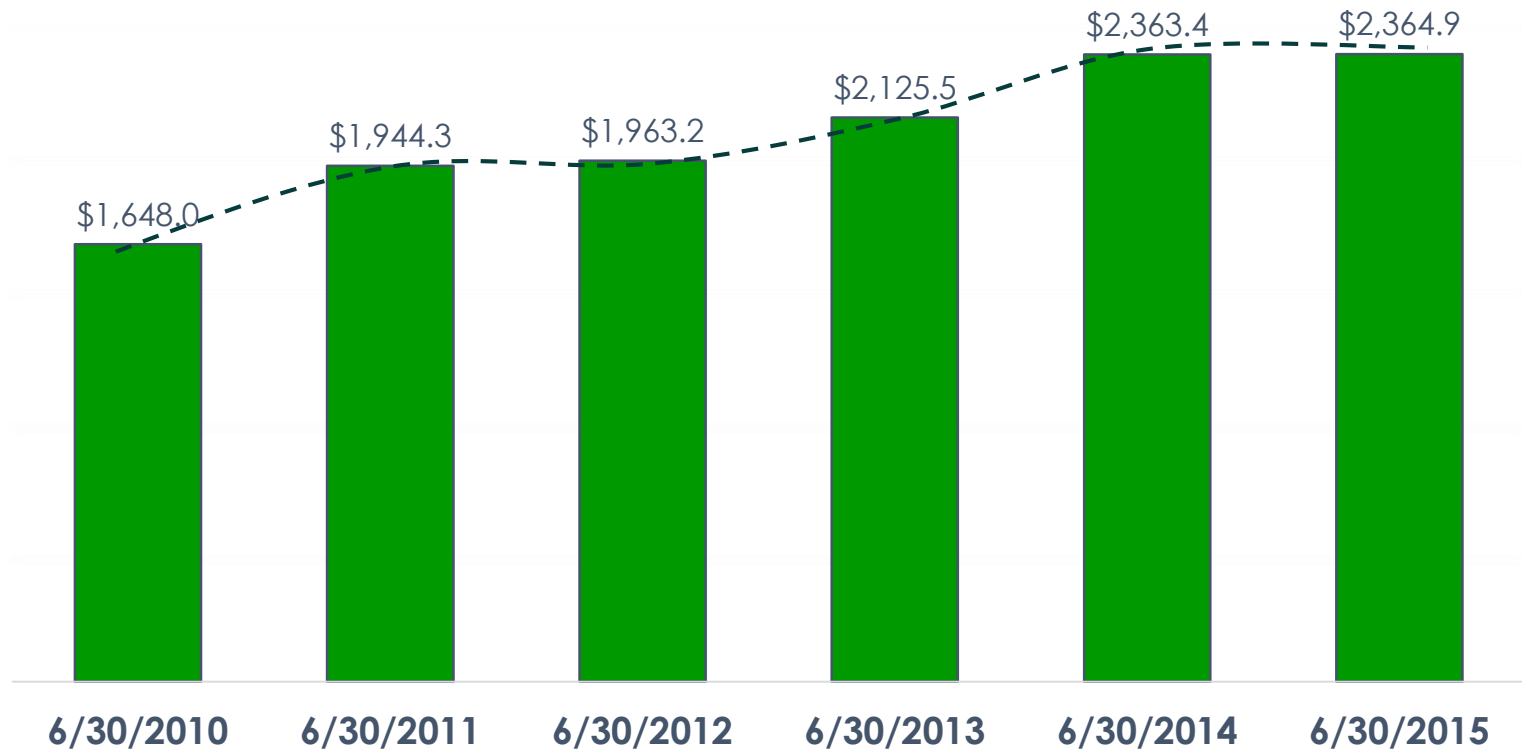
(IN MILLIONS)





# TOTAL EDUCATION TRUST ASSETS

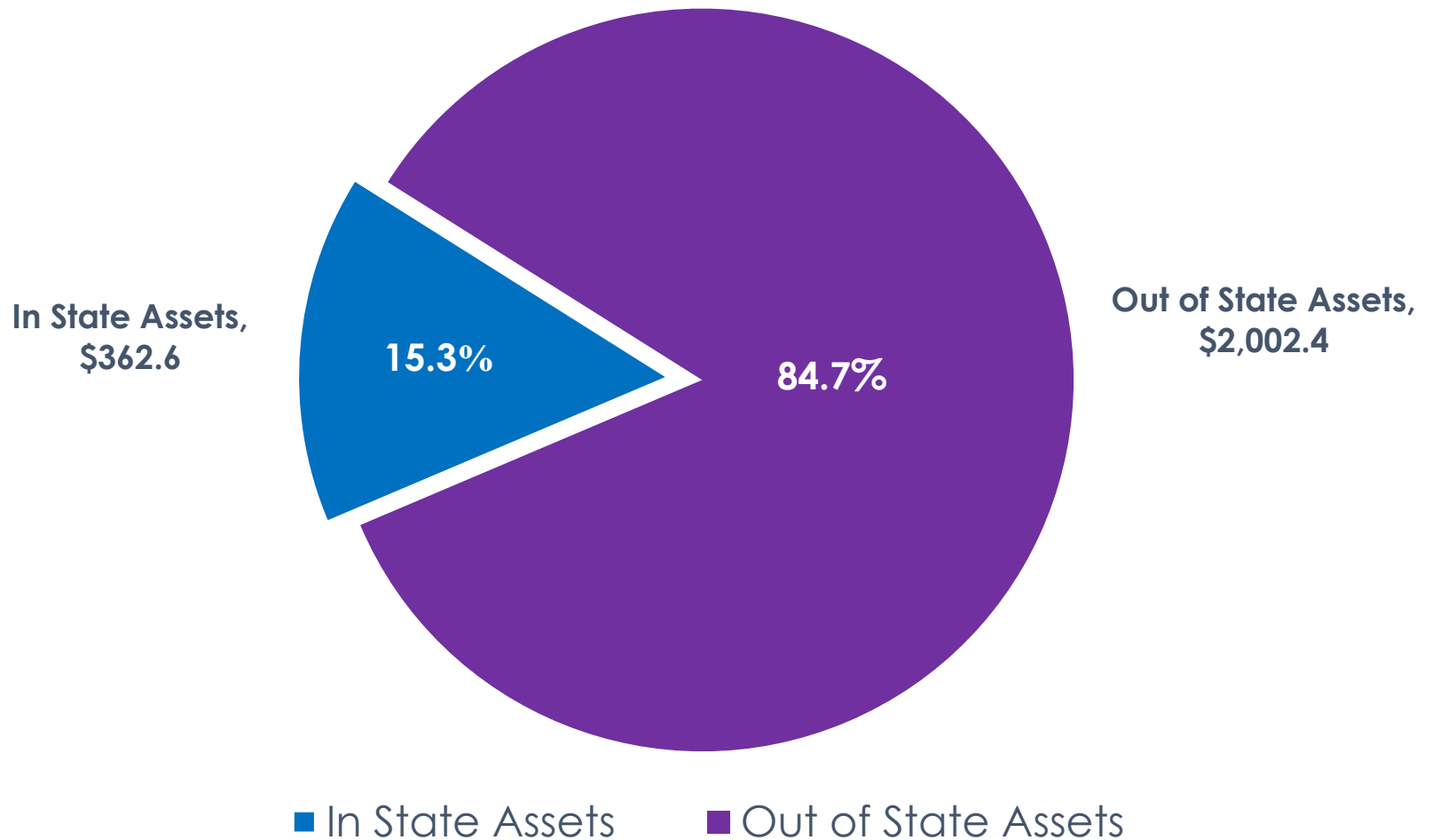
(IN MILLIONS)





# TOTAL TRUST ASSETS BY RESIDENCY OF ACCOUNT OWNERS

(IN MILLIONS)

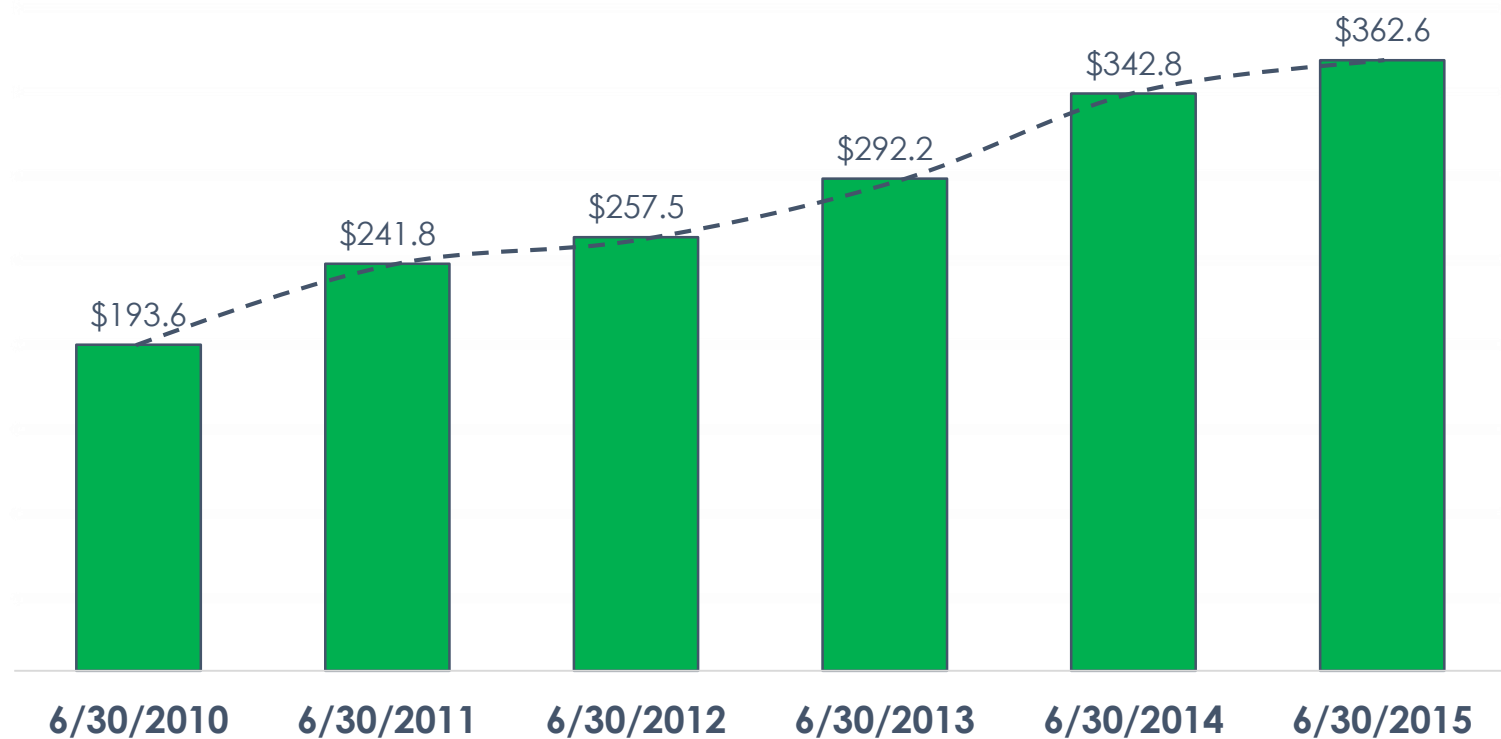






# EDUCATION TRUST ASSETS IN NM

(IN MILLIONS)





# New Mexico 529 Programs Structure

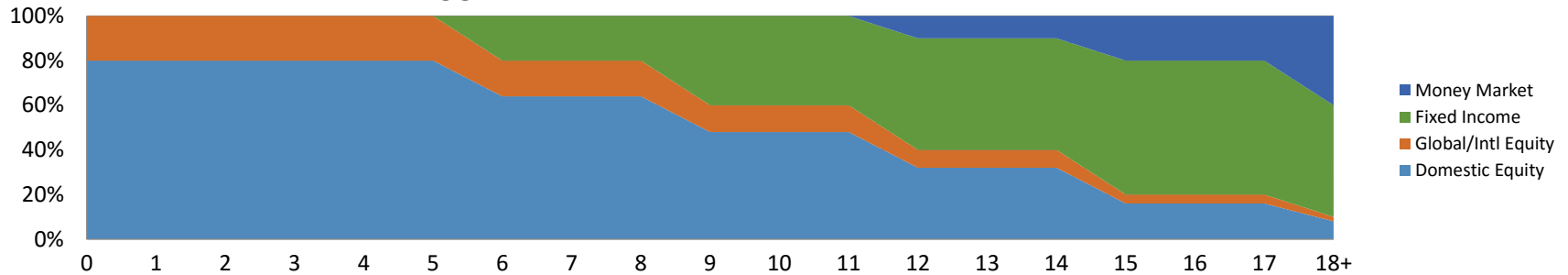
- Recall that the New Mexico College Savings Programs consist of two separate programs
  - The Education Plan – sold directly to participants
  - The Scholar's Edge Plan – sold through commission-based investment advisors
  
- Most participants in each plan tend to select an age-based portfolio option
  - Utilizes a glide path structure typically 20 – 22 years in length
  - Typical glide path begins with equity allocation 80% at age 0
  - Adjusts asset allocation over time away from volatile equities and toward more stable fixed income/short-term bond classes near the “draw down” period (college age)



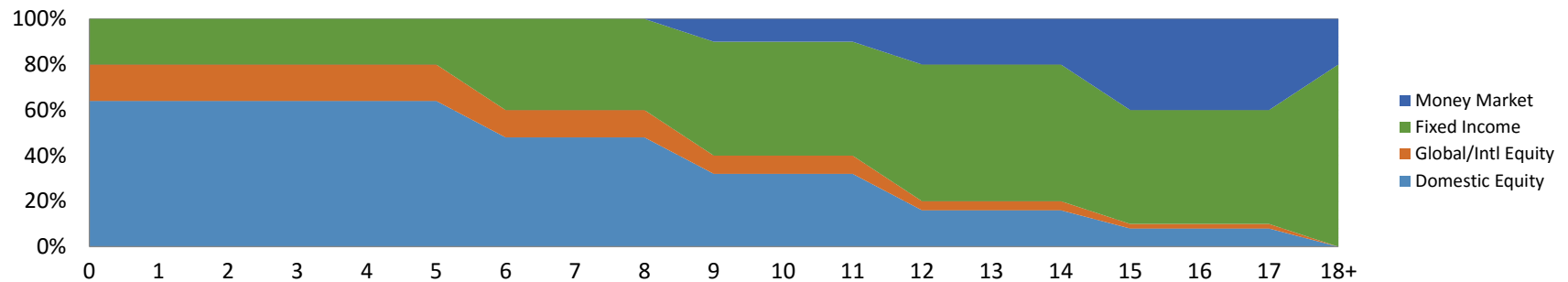


# Direct Sold Program Glide path

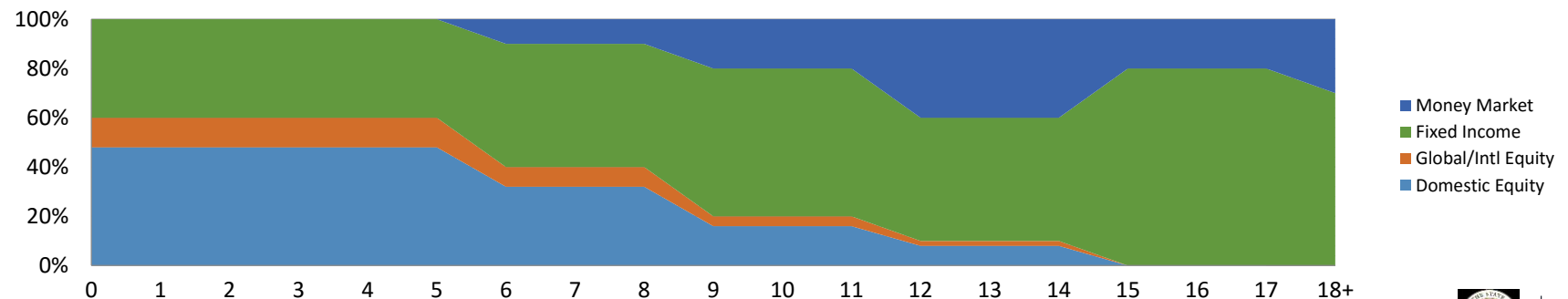
## The Education Index - Aggressive



## The Education Index - Growth



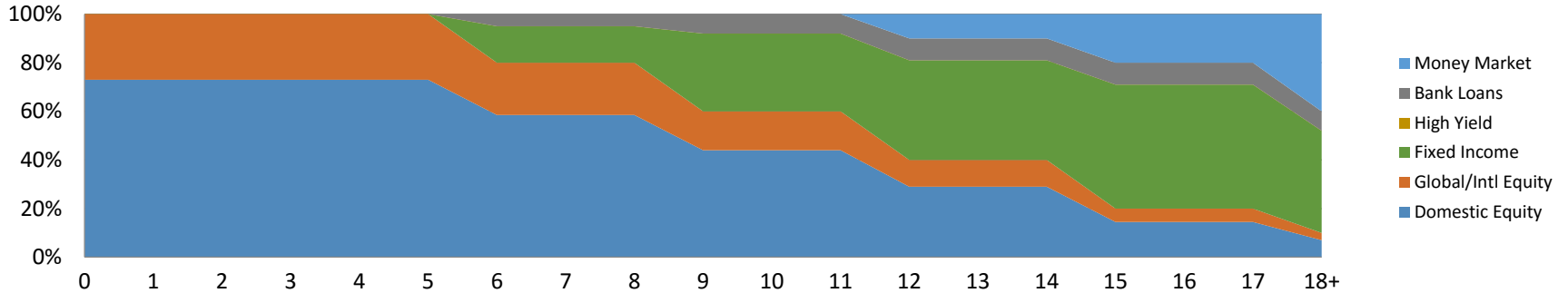
## The Education Index - Balanced



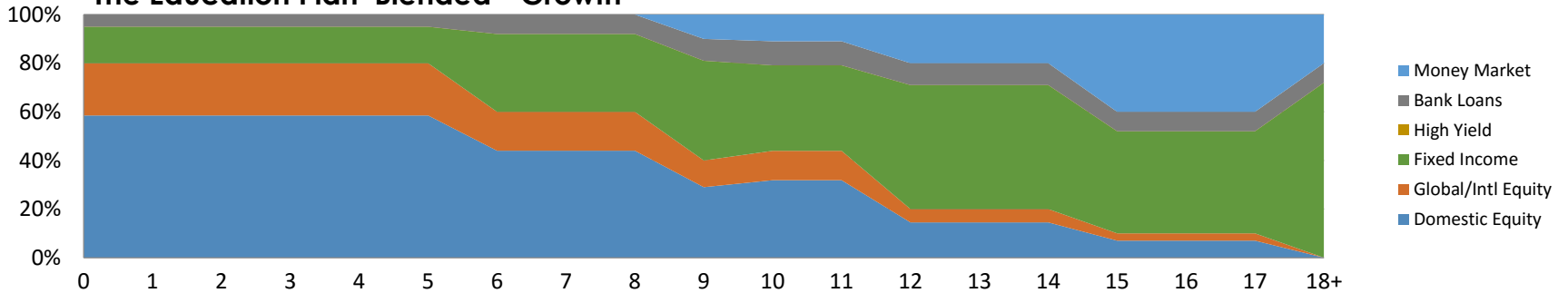


# Direct Sold Program Glide path

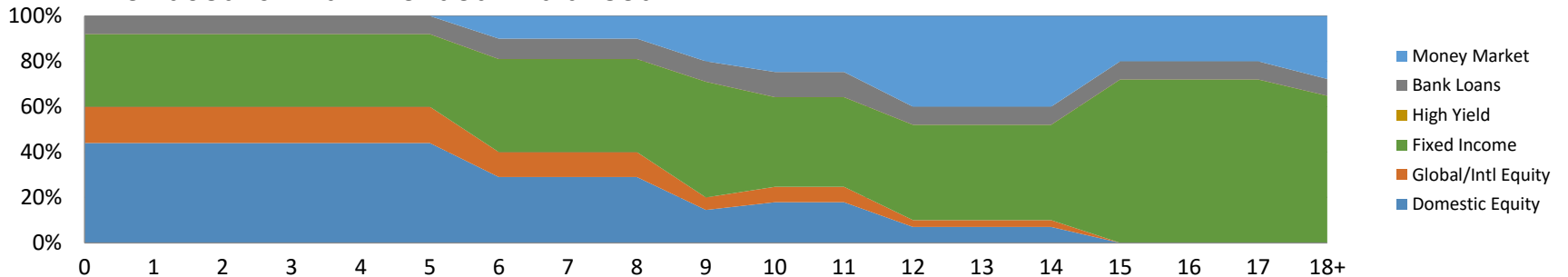
## The Education Plan Blended - Aggressive



## The Education Plan Blended - Growth



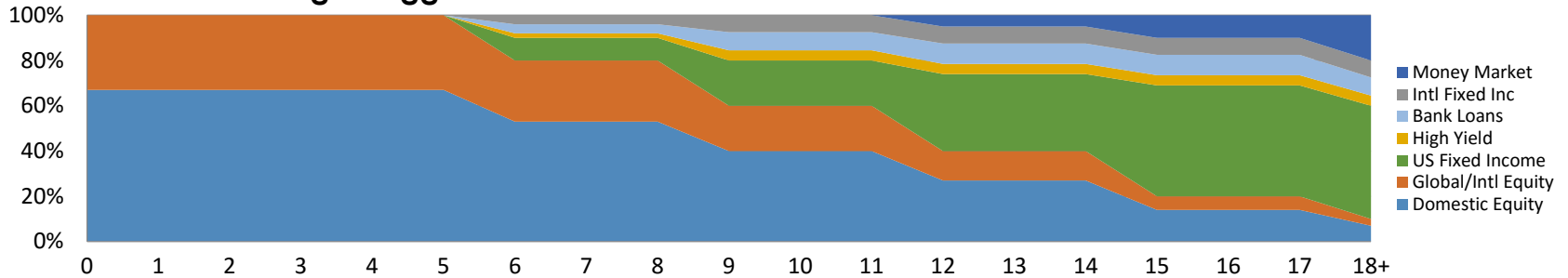
## The Education Plan Blended - Balanced



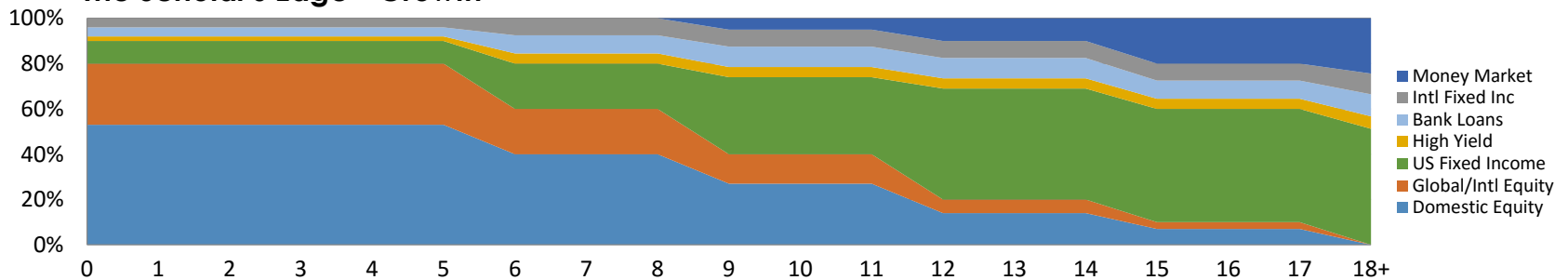


# Advisor Sold Program Glide path

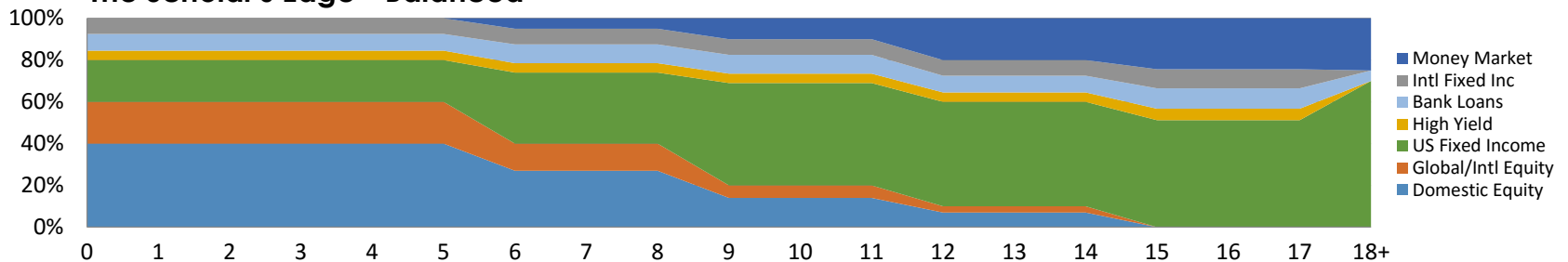
## The Scholar's Edge - Aggressive



## The Scholar's Edge - Growth



## The Scholar's Edge - Balanced





# PROGRAM PERFORMANCE

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# Investment Performance



The Savingforcollege.com Plan Composite Rankings are derived using the plans relevant portfolio performance in seven unique asset allocation categories.

Both NM College Savings Programs are highly ranked in the Savingforcollege.com Plan Comparison

- Scholar's Edge is sixth best performing advisor-sold plan in the nation
- The Education Plan ranks as the eleventh best performing direct-sold plan in the nation





# Performance as of 9/30/2015

## The Education Plan (TEP) and Scholar's Edge (SE)

	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
<b>New Mexico Age Based 0-5</b>								
T.E.P. Age 0-5	-8.11	27	-2.12	11	10.46	16	10.38	21
TEP 0-5 Benchmark	-8.74	69	-3.16	32	10.43	17	10.66	15
T.E.P. Index Age 0-5	-7.47	8	-2.19	12	10.59	11	10.77	14
TEP Index 0-5 Benchmark	-8.74	69	-3.16	32	10.43	17	10.66	15
Scholar'sEdge Age 0-5 A	-8.32	39	-2.47	13	9.99	27	9.53	47
SE 0-5 Benchmark	-8.99	94	-3.49	44	9.92	31	10.22	26
<b>Custom Morningstar Age 0-5 Median</b>	-8.60		-3.59		9.40		9.47	
<b>New Mexico Age Based 6-8</b>								
T.E.P. Age 6-8	-6.43	20	-1.36	14	8.66	18	9.03	23
TEP 6-8 Benchmark	-6.83	36	-1.88	24	8.86	12	9.37	14
T.E.P. Index Age 6-8	-5.78	7	-1.31	12	8.72	14	9.63	11
TEP Index 6-8 Benchmark	-6.83	36	-1.88	24	8.86	12	9.37	14
Scholar'sEdge Age 6-8 A	-6.79	33	-1.99	28	8.27	28	8.37	44
SE 6-11 Benchmark	-7.11	45	-2.80	47	7.87	43	8.47	42
<b>Custom Morningstar Age 6-8 Median</b>	-7.22		-2.93		7.60		8.20	
<b>New Mexico Age Based 9-11</b>								
T.E.P. Age 9-11	-4.87	24	-0.66	11	6.81	31	7.55	29
TEP 9-11 Benchmark	-4.88	24	-0.62	10	7.23	17	7.99	18
T.E.P. Index Age 9-11	-4.06	4	-0.07	4	6.93	28	8.11	16
TEP Index 9-11 Benchmark	-4.88	24	-0.62	10	7.23	17	7.99	18
Scholar'sEdge Age 9-11 A	-5.21	34	-1.42	32	6.42	43	7.09	40
SE 9-11 Benchmark	-5.11	28	-2.00	47	5.93	59	6.75	55
<b>Custom Morningstar Age 9-11 Median</b>	-5.44		-2.16		6.25		6.81	

Rank: 1=highest, 100=lowest; GREEN indicates above median results

Source: Morningstar Direct

- Latest quarter and 1-year results for nearly all of the Active TEP and SE portfolios were above median peers
- 3-year benchmark results were above median to top decile, indicating the Program's asset allocation is working
- 5-year benchmark results were in line with top quartile to top decile in the early stage of the glide path, and above median in the later stages of the glide path, also indicating the Program's asset allocation is working







# Performance as of 9/30/2015

## The Education Plan (TEP) and Scholar's Edge (SE)

	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
<b>New Mexico Age Based 12-14</b>								
T.E.P. Age 12-14	-3.13	23	0.00	15	4.83	46	5.71	49
TEP 12-14 Benchmark	-3.10	21	0.13	10	5.22	30	6.00	36
T.E.P. Index Age 12-14	-2.56	6	0.57	4	5.01	41	6.31	23
TEP Index 12-14 Benchmark	-3.10	21	-0.13	16	5.22	30	6.00	36
Scholar'sEdge Age 12-14 A	-3.53	35	-0.83	38	4.48	59	5.46	58
SE 12-14 Benchmark	-3.55	36	-1.04	45	4.68	53	5.69	50
<b>Custom Morningstar Age 12-14 Median</b>	<b>-3.83</b>		<b>-1.24</b>		<b>4.76</b>		<b>5.70</b>	
<b>New Mexico Age Based 15-17</b>								
T.E.P. Age 15-17	-1.35	18	0.52	14	2.67	44	3.57	38
TEP 15-17 Benchmark	-1.31	17	0.88	9	3.20	26	3.90	29
T.E.P. Index Age 15-17	-1.00	5	1.26	4	2.94	35	4.22	21
TEP Index 15-17 Benchmark	-1.31	17	0.88	9	3.20	26	3.90	29
Scholar'sEdge Age 15-17 A	-1.82	31	-0.15	25	2.43	52	3.41	43
SE 15-17 Benchmark	-1.67	26	-0.20	26	2.80	40	3.74	32
<b>Custom Morningstar Age 15-17 Median</b>	<b>-2.30</b>		<b>-0.83</b>		<b>2.45</b>		<b>3.22</b>	
<b>New Mexico Age 18+</b>								
T.E.P. Age 18+	-0.55	42	0.56	25	1.52	35	2.33	16
TEP 18+ Benchmark	-0.48	40	0.98	13	1.98	32	2.57	11
T.E.P. Index Age 18+	-0.25	33	1.42	8	1.86	32	2.98	8
TEP Index 18+ Benchmark	-0.48	40	0.98	13	1.98	32	2.57	11
Scholar'sEdge Age 18+ A	-0.94	53	0.00	47	1.44	37	2.42	15
SE 18+ Benchmark	-0.74	48	0.07	40	1.74	33	2.55	12
<b>Custom Morningstar Age 18+ Median</b>	<b>-0.83</b>		<b>-0.10</b>		<b>0.67</b>		<b>1.48</b>	

Rank: 1=highest, 100=lowest; GREEN indicates above median results

Custom peer groups determined by portfolio equity allocation

Source: Morningstar Direct

- Latest quarter and 1-year results for nearly all of the Active TEP and SE portfolios were above median peers
- 3-year benchmark results were above median to top decile, indicating the Program's asset allocation is working
- 5-year benchmark results were in line with top quartile to top decile in the early stage of the glide path, and above median in the later stages of the glide path, also indicating the Program's asset allocation is working

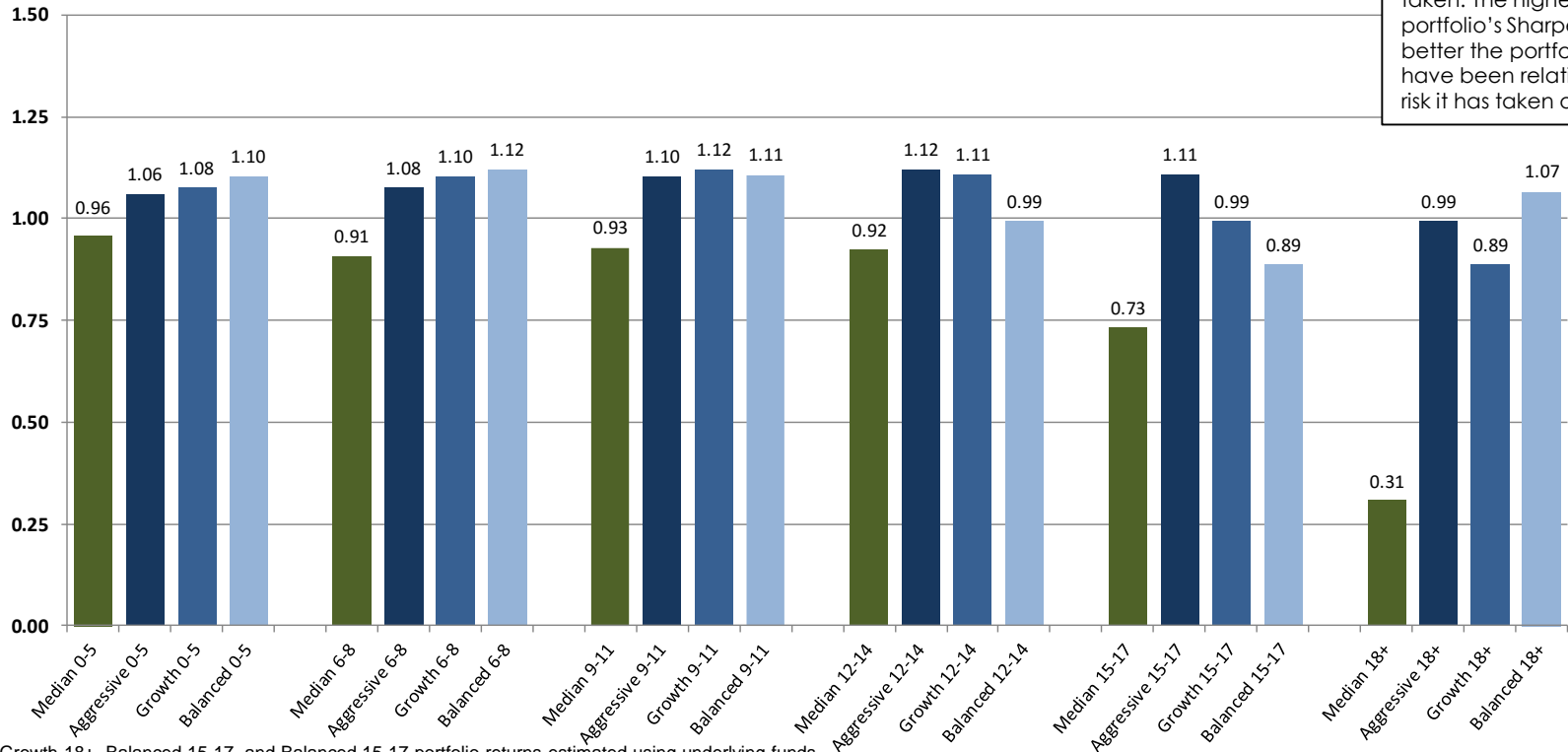




# Performance as of 9/30/2015

## The Education Plan 3-Yr Risk Adjusted Results (Sharpe Ratio)

Sharpe Ratio is used to characterize how well the return of the portfolio compensates for the risk taken. The higher the portfolio's Sharpe Ratio, the better the portfolio's returns have been relative to the risk it has taken on.



Growth 18+, Balanced 15-17, and Balanced 15-17 portfolio returns estimated using underlying funds  
Source: Morningstar

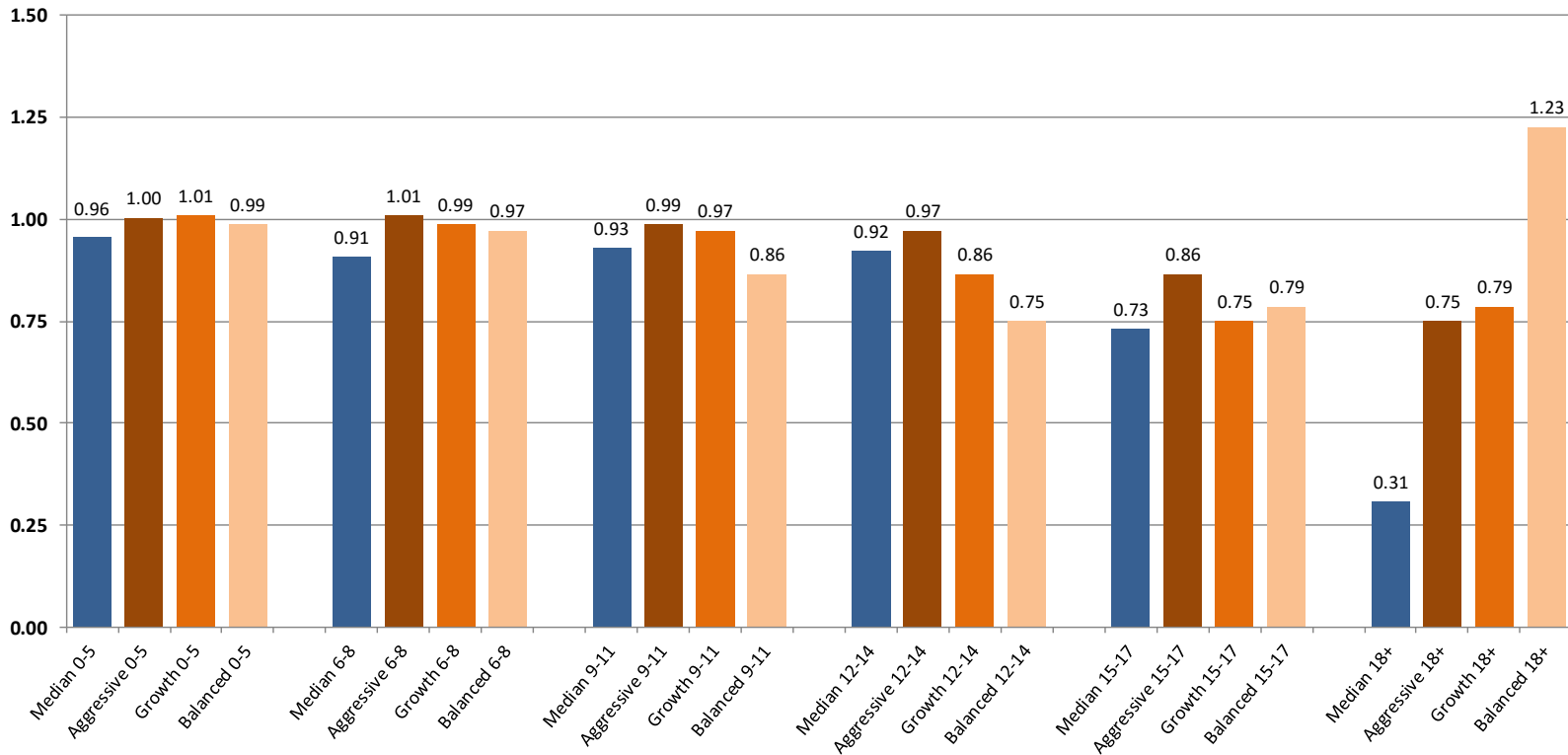
- The Education Plan portfolios have better risk-adjusted results than their median peers
- Reveals that The Education Plan portfolios achieve a higher return per unit of risk
- Sharpe Ratio =  $(\text{Portfolio Return} - \text{Risk Free Return}) / \text{Standard Deviation}$





# Performance as of 9/30/2015

## Scholar's Edge 3-Yr Risk Adjusted Results (Sharpe Ratio)



Growth 18+, Balanced 15-17, and Balanced 15-17 portfolio returns estimated using underlying funds  
Source: Morningstar

- Most Scholar's Edge portfolios have better risk-adjusted results than their median peers
- Reveals that Most Scholar's Edge portfolios achieve a higher return per unit of risk
- $\text{Sharpe Ratio} = (\text{Portfolio Return} - \text{Risk Free Return}) / \text{Standard Deviation}$



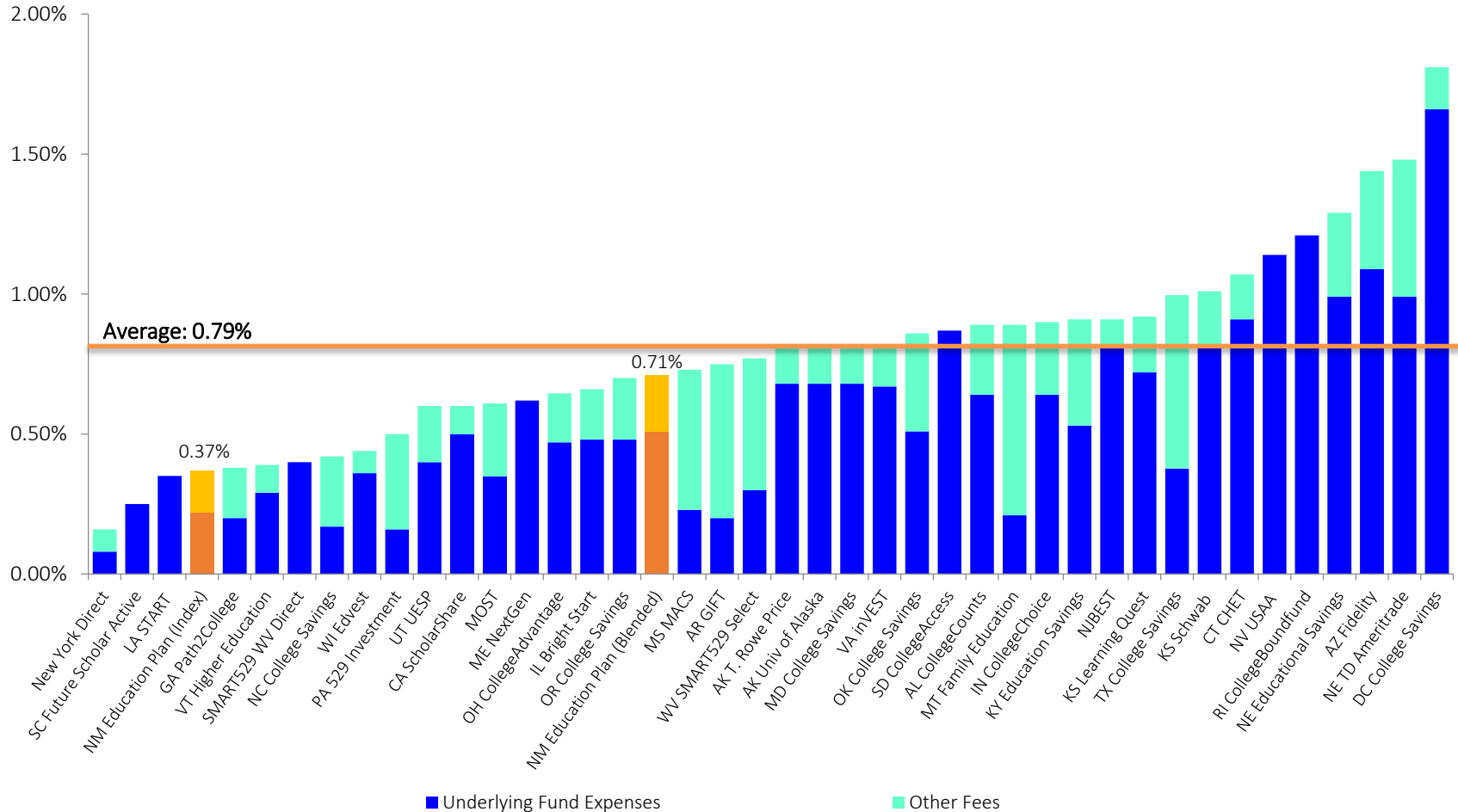


## OVERVIEW OF 529 FEES

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# Select Direct Plan Maximum Fees



Sources: Savingforcollege.com and Plan Offering Documents as of October 14, 2015

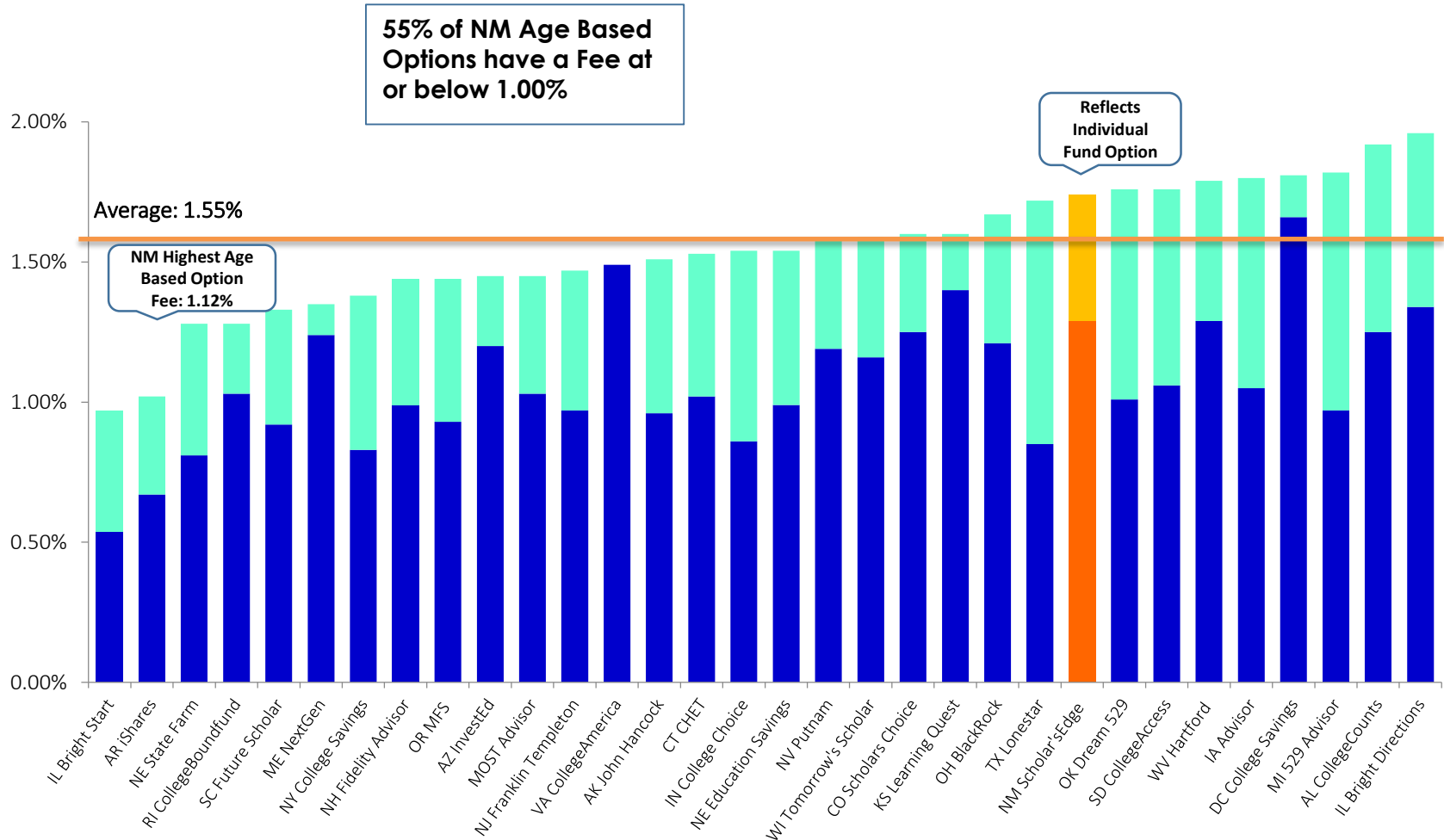
Graph does not include (1) Bank Plans in AZ, CO, IN, MT and VA; (2) Fidelity-managed Plans in DE, MA and NH; (3) Ascensus-managed Plans in HI, IA, ND and NV; and (4) TFI-managed Plans in MI and MN

Excluding the District of Columbia, the average maximum fee would be 0.77%





# Select Advisor Plan Maximum Fees



Sources: Savingforcollege.com and Plan Offering Documents as of October 14, 2015  
Maximum Fees represent A Shares





## APPENDIX

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# Monitoring Underlying Funds

- **The process of manager evaluation and monitoring is necessary, yet challenging**
- **The evaluation process should exhibit several key features:**
  - Rely on objectivity
  - Maintain balance between short-term issues and long-term objectives
  - Candid discussion of merits and tradeoffs associated with specific advisors
  - Biases of consultant and program/client
- **While the process might be fluid, a systematic documented approach is essential**
  - Incorporate performance related and qualitative aspects of managers' practices
  - Understanding the role of the fund in the Program
  - Clear time period of review







# Monitoring Underlying Funds

## Quantitative Review

### Formulaic criteria focused on

- Relative performance versus a benchmark/peers over various time periods

### Understand underperformance

- Is investment style out of favor?
- What are the biases of the investment strategy?
- Is the benchmark/peer group an accurate representation of the fund's opportunity set?
- Does the role of the fund make sense?
- Is the underperformance consistent with expectations?

## Qualitative Review

### Non-performance issues

- Has there been a change in ...
  - ☑ People – PM/Analysts
  - ☑ Process
  - ☑ Philosophy
  - ☑ Organizational Structure

### Implications of change/event

- Is the change a positive or negative?
- How will it impact the management of the fund?
- How will it impact the firm/team culture?
- Will it be a distraction to the investment process?





# Monitoring Underlying Funds

## 1. Establish Criteria

### Scholar's Edge Schedules

Table 2a: Actively Managed Individual Funds  
(Based on net-of-fee fund performance)

Asset Class	Sub-Asset Class	Short-Term (rolling 12-month periods)	Medium-Term (rolling 36-month periods)	Long-Term (rolling 60-month periods)
Equity Securities	Equity	Fund return - benchmark return -1.45% for 6 consecutive months	Fund return - benchmark return -1.55% for 6 consecutive months	Fund return - benchmark return -1.55% for 6 consecutive months
Equity Securities	International Equity	Fund return - benchmark return -4.5% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months
Equity Securities	Mid and Small Cap	Fund return - benchmark return -4.5% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months
Equity Securities	International Equity	Fund return - benchmark return -4.5% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months
Fixed Income Securities	U.S. Fixed Income	Fund return - benchmark return -0.75% for 6 consecutive months	Fund return - benchmark return -0.75% for 6 consecutive months	Fund return - benchmark return -0.75% for 6 consecutive months
Fixed Income Securities	International Fixed Income	Fund return - benchmark return -2.0% for 6 consecutive months	Fund return - benchmark return -1.5% for 6 consecutive months	Fund return - benchmark return -1.5% for 6 consecutive months
Fixed Income Securities	High Yield	Fund return - benchmark return -6.5% for 6 consecutive months	Fund return - benchmark return -3.25% for 6 consecutive months	Fund return - benchmark return -3.25% for 6 consecutive months
Fixed Income Securities	Multi-Sector	Fund return - benchmark return -0.75% for 6 consecutive months	Fund return - benchmark return -0.75% for 6 consecutive months	Fund return - benchmark return -0.75% for 6 consecutive months
Alternative Securities	Real Estate	Fund return - benchmark return -3.0% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months	Fund return - benchmark return -2.0% for 6 consecutive months
Alternative Securities	Commodities	Fund return - benchmark return -3.25% for 6 consecutive months	Fund return - benchmark return -2.25% for 6 consecutive months	Fund return - benchmark return -2.25% for 6 consecutive months

"Current status" refers to the most recent data point which is "Current".  
The status of the fund will be "Under Review" if the fund is in "Watch" status.  
Assets will be in "Watch" status if the fund is in "Watch" status.  
Assets will be in "Watch" status if the fund is in "Watch" status.

## 2. Report Breaches of Criteria

Date: September 8, 2018

To: New Mexico Education Trust Board

From: Pension Consulting Alliance, LLC (PCA)

CC: Ray Caseman (PCA) | Ben White, CRA (PCA) | Sean Caputo (PCA)

RE: "Watch" Status Update

### Summary and Recommendation

PCA has reviewed the status of June 30, 2018 for the Education Plan and the Scholar's Edge Plan. As of the end of the period, the funds remain in "Watch" status, and have been placed in "Watch" status under the Monitoring Procedures and Criteria.

PCA recommends that the Thompson International Value Fund be removed from "Watch" status and that the other four funds remain in "Watch" status. Additionally, PCA recommends the Oppenheimer Community Income Total Return Fund and the Oppenheimer Sector Rotation Fund be placed in "Watch" status. Each of these funds is discussed in more detail on the following pages.

### Performance of Funds on Watch Status As of 6/30/18

Funds on Watch Status	Program Assets (\$B)	% of Total Assets	Watch Status Since Inception	Assets Performance Since Watch	Assets on Watch	Status	Year of Concern
Thompson International Value Fund	18	0.1%	12/1/13	21	-1.5%	Yes	1
Oppenheimer Mid-Cap Fund	25	0.1%	7/1/13	25	-0.5%	Yes	1
Oppenheimer Rising Dividends Fund	15	0.1%	7/1/13	24	-1.7%	Medium	1
Oppenheimer Discovery Fund	15	0.1%	12/1/14	2	0.4%	Yes	1
Dreyfus Research Growth Fund	10	0.1%	4/1/13	2	0.7%	Yes	1

18% of the Education Plan - 20% of the Scholar's Edge Plan

These funds are on "Watch" status as proposed due to the Program's return.

### Concern Level

- Low: Underperformance consistent with biases of investment strategy; benchmark and/or peer group mismatch
- Moderate: Isolated periods of underperformance due to stock selection and/or sector selection
- Moderately High: Persistent underperformance resulting from stock and/or sector selection
- High: Portfolio exhibiting style drift; change in investment philosophy or process; material personnel change

## 3. Monitoring and Report on Improvement/Deterioration

### SUMMARY OF FUND PERFORMANCE STATUS

#### SCHOLAR'S EDGE SUMMARY OF FUND PERFORMANCE STATUS

Portfolio	Program Assets (\$B)	% of Total Assets	Prior Quarter Status	Current Quarter Status
Monetary Mkt (MUBFX)	172.0	0.4%		
Oppenheimer Value 1 (ODVFX)	194.7	0.9%	Acceptable	Acceptable
Oppenheimer Mid-Cap 1 (ODMFX)	170.5	0.2%	Acceptable	Acceptable
Oppenheimer Mid-Cap 2 (ODMFX)	187.6	0.1%	Acceptable	Acceptable
Oppenheimer Rising Dividends 1 (ORDFX)	2.3	0.1%	Acceptable	Acceptable
Oppenheimer Equity Income 1 (ODEIX)	3.0	0.2%	Acceptable	Acceptable
Oppenheimer Discovery 1 (ODDIX)	0.6	0.0%	Acceptable	Acceptable
Dreyfus Research Growth 1 (DRGFX)	16.4	0.9%	Acceptable	Acceptable
Oppenheimer International Growth 1 (ODIGX)	95.2	0.2%	Acceptable	Acceptable
Thompson International Value 1 (TOVFX)	61.0	0.2%	Acceptable	Acceptable
Oppenheimer Int Diversified 1 (ODIDFX)	0.6	0.0%	Acceptable	Acceptable
Oppenheimer Global 1 (ODGLX)	88.8	0.7%	Acceptable	Acceptable
Oppenheimer Global Opportunities 1 (ODGFX)	0.7	0.0%	Acceptable	Acceptable
Oppenheimer Developing Mkts 1 (ODVFX)	1.0	0.1%	Acceptable	Acceptable
American Century Divers Int'l (ACDIFX)	288.9	10.2%	Acceptable	Acceptable
Oppenheimer Global Strategic Inc 1 (ODSFX)	17.4	0.9%	Acceptable	Acceptable
Oppenheimer International Bond 1 (ODIBX)	102.0	0.5%	Acceptable	Acceptable
Oppenheimer Div Floating Rate 1 (ODFRX)	118.6	0.5%	Acceptable	Acceptable
Monetary High Yield Corp Bond 1 (MHYFX)	40.0	0.4%	Acceptable	Acceptable
Oppenheimer Limited Term Div 1 (ODLFX)	188.7	10.0%	Acceptable	Acceptable
Oppenheimer Common Div 1 (ODCAF)	0.2	0.0%	Acceptable	Acceptable
Oppenheimer Gold & Spec Metals 1 (ODSMX)	0.3	0.0%	Acceptable	Acceptable
Oppenheimer Real Estate 1 (ODREX)	0.7	0.0%	Acceptable	Acceptable

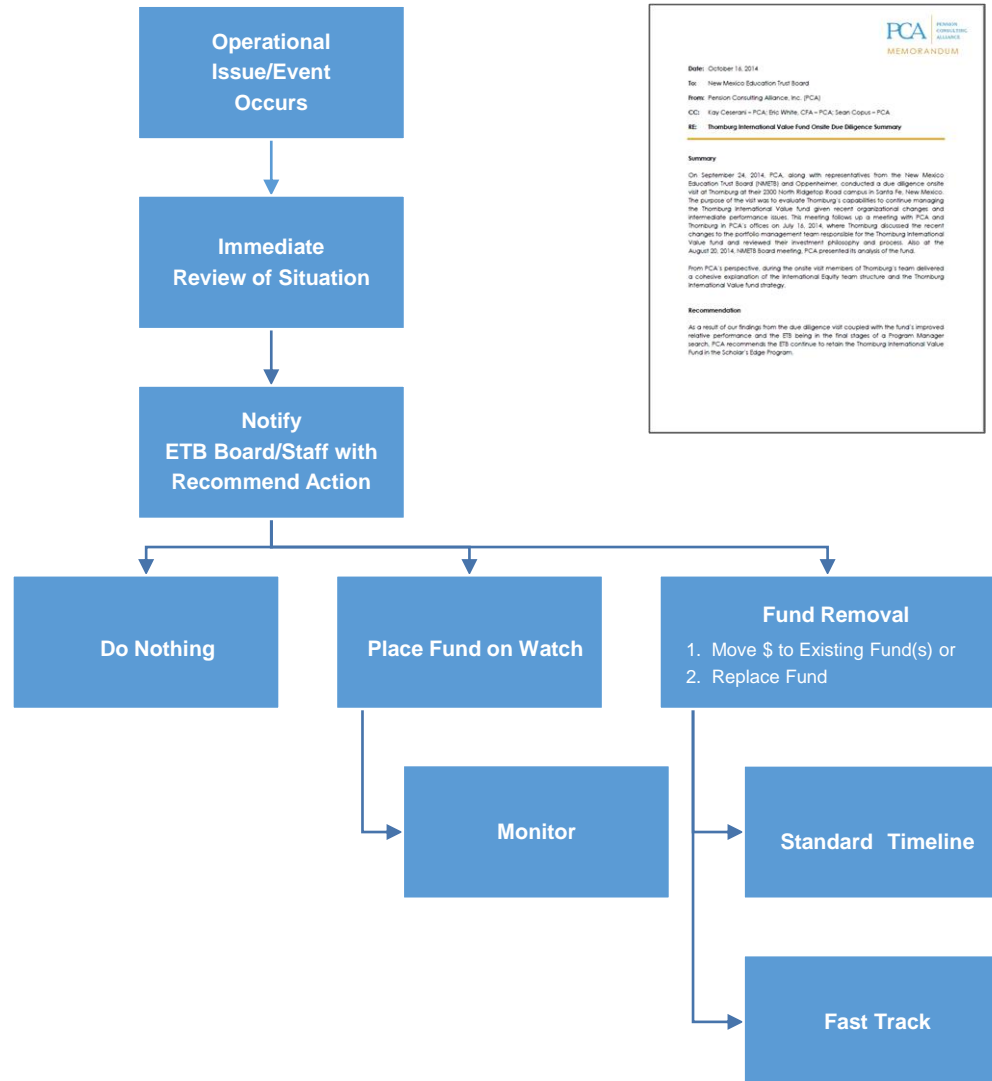
Current status is based on evaluation results from short-term (rolling 12-month) and medium-term (rolling 36-month) analysis. According to the Investment Status Schedule, the portfolio's overall "Current Quarter Status" equals the lowest status as achieved by one or more of the criteria during the quarter.

## 4. Terminate, Restore to Normal Status, Continue to Monitor





# Monitoring Underlying Funds





# Monitoring Age-based Options

- PCA's evaluation process seeks to understand the program manager's approach to the glidepath construction
  - Approach to asset allocation and modeling techniques used
  - Process for including new asset classes
  - How the inputs for the model are derived (i.e., capital market assumptions)
  - Number of age bands
  - Number of underlying funds
  - Frequency of rebalancing
- PCA's analysis focuses on downside deviation and the probability of maintaining pace with tuition inflation, as well as ...
- The glidepath's effectiveness of generating returns relative to the risks incurred
  - Utilizing Monte Carlo analysis with PCA's Capital Market Assumptions
  - Considers all stages of glidepath (zero to matriculation)



# Manager Search & Due Diligence Process

**PCA professionals conduct over 750 manager meetings per year**

## Guiding Principles

- **Manager selection is extremely difficult**
- **PCA has complete independence from the manager community**
  - No financial arrangements / relationships
  - Strict zero tolerance gift policy
- **Each search begins with a set of criteria rather than a favored list of managers**
  - Incorporate client's goals, preferences, and concerns into the process ...
  - While taking into consideration any operational issues/concerns identified by the Program Manager
- **Transparent search process**
  - There is a range of transparency requirements across our clients
  - PCA meets them all

## Features

- **Client-oriented, customized approach**
  - Discuss with the Board and Staff
- **Structural fit is a critical component**
  - Existing documents / structural issues
  - Unique client goals / objectives
- **Independent databases (Nelson's, Morningstar, eVestment Alliance, AltVest, proprietary deal logs)**
- **Sophisticated tools to select and structure managers**
  - Includes style- and holdings-based analytical tools for assessing risk
- **Intuitive evaluation and communication of due diligence processes**

